

OWSLEY COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2009

OWSLEY COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Owsley County School District
Booneville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Owsley County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Owsley County School District as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 on our consideration of Owsley County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 7 and 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Owsley County School District's basic financial statements. The additional information shown on pages 34 and 35 and 37 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on pages 40 through 43 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baldwin CPAs, PLLC

London, Kentucky
November 13, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2009

As management of the Owsley County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$707,469 and the ending cash balance was \$853,873. This represents an increase of \$146,404. The increase in the ending cash balance is a reflection of the District's commitment and focus on efficient use of resources.
- Our District continues to look for outside funding sources through grants and other venues as a means of enhancing our efforts toward attaining student proficiency.
- Our District remains committed to educational excellence by keeping teacher salaries comparable to those of surrounding areas and the student-teacher ratio low.
- The General Fund had \$6.3 million in revenues, which primarily consisted of the state program (SEEK), property and motor vehicle taxes, and earned interest income.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2009

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 8-9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10-17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 18-33 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$3.57 million as of June 30, 2009.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2009

Net Assets for the period ending June 30, 2009

This is the sixth year that the District is following GASB 34 and comparing assets, liabilities and net assets. 2009 District-Wide Net Assets compared to 2008 follows:

	2009	2008
Current assets	\$ 1,553,965	\$ 1,390,464
Non-current assets	<u>5,747,492</u>	<u>5,968,392</u>
Total Assets	<u>7,301,457</u>	<u>7,358,856</u>
Current liabilities	452,611	493,604
Non-current liabilities	<u>3,275,621</u>	<u>3,387,845</u>
Total Liabilities	<u>3,728,232</u>	<u>3,881,449</u>
Net Assets		
Investments in capital assets (net of debt)	1,478,524	1,565,200
Unreserved fund balance	<u>2,094,701</u>	<u>1,912,207</u>
Total Net Assets	<u>\$ 3,573,225</u>	<u>\$ 3,477,407</u>

There have been no significant change in the financial position of the District since the last audit.

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2009, net of Interfund transfers and bond proceeds, were \$6.3 million.
- General fund budget compared to actual revenue varied slightly from line item to line item except for the other revenue from state sources item with the ending actual revenue being \$1,413,865 more than budget or approximately twenty-nine percentage points. This variance is primarily the result of reflecting on-behalf amounts in revenue. The on-behalf revenue is not a budget item.
- The total cost of all general fund programs and services was \$6.1 million net of debt service.
- General fund budget expenditures to actual varied significantly. The primary reason for the variance is the on-behalf amounts are included in actual expenditures but those on-behalf amounts are not budgeted.

The following table presents a summary of governmental funds revenue and expenditures, excluding transfers, for the fiscal years ended June 30, 2009 and 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2009

	<u>2009</u>	<u>2008</u>
REVENUES		
Local revenue sources	\$ 919,798	\$ 910,932
State revenue sources	6,314,169	6,171,624
Federal revenue	2,798,925	2,803,143
Other sources	43,530	86,864
Total revenues	<u>10,076,422</u>	<u>9,972,563</u>
EXPENDITURES		
Instruction	5,600,368	5,981,017
Student support services	408,820	326,609
Instructional support	732,002	520,017
District administration	266,465	328,481
School administration	351,110	400,402
Business support	176,784	168,645
Plant operations	898,272	843,164
Student transportation	580,211	688,845
Community service activities	399,810	7,601
Facility acquisition and construction	204,473	1,162,504
Debt Service	401,136	377,596
Total expenditures	<u>10,019,451</u>	<u>10,804,881</u>
Revenue in Excess of (Less than) Expenditures	<u>\$ 56,971</u>	<u>\$ (832,318)</u>

General Fund Revenue

The majority of general fund revenue was derived from state funding with local taxes making up 7.5% of total general fund revenue.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
OWSLEY COUNTY SCHOOL DISTRICT - BOONEVILLE, KY
YEAR ENDED JUNE 30, 2009**

School Allocation

Regular Instruction accounts for 70% of the school level expenditures.

Central Office Allocation

Central support services expenditures were Transportation 11%, Maintenance and Operations 11%, and Business Functions 8%.

BUDGETARY IMPLICATIONS

In Kentucky public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the District overall budget. By law the budget must have a minimum 2% contingency. The board adopted a budget with a \$301,960 contingency (3.6%). The District ended the year with a \$922,517 contingency.

CONTACTING THE OWSLEY COUNTY SCHOOL DISTRICT MANAGEMENT

Questions regarding this report should be directed to the Superintendent (606) 593-6363 or to Jerry McIntosh, Director of Financial Services (606) 593-6363 or by mail at Route 3, Box 340, Booneville, Kentucky 41314.

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash and cash equivalents	\$ 764,129	\$ 89,744	\$ 853,873
SFCC current receivable of bonds payable	41,610	-	41,610
Accounts receivable	548,947	78,926	627,873
Inventory	-	30,609	30,609
Total current assets	<u>1,354,686</u>	<u>199,279</u>	<u>1,553,965</u>
Noncurrent Assets			
SFCC long-term receivable of bond principal	767,514	-	767,514
Capital assets	10,907,227	280,123	11,187,350
Less: accumulated depreciation	(5,939,526)	(267,846)	(6,207,372)
Total noncurrent assets	<u>5,735,215</u>	<u>12,277</u>	<u>5,747,492</u>
Total assets	<u>\$ 7,089,901</u>	<u>\$ 211,556</u>	<u>\$ 7,301,457</u>
LIABILITIES			
Current Liabilities			
Deferred revenue	\$ 180,778	\$ -	\$ 180,778
Current portion of bond obligations	271,833	-	271,833
Total current liabilities	<u>452,611</u>	<u>-</u>	<u>452,611</u>
Noncurrent Liabilities			
Noncurrent portion of bond obligations	3,229,621	-	3,229,621
Noncurrent portion of accrued sick leave	46,000	-	46,000
Total noncurrent liabilities	<u>3,275,621</u>	<u>-</u>	<u>3,275,621</u>
Total liabilities	<u>3,728,232</u>	<u>-</u>	<u>3,728,232</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,466,247	12,277	1,478,524
Unrestricted	1,895,422	199,279	2,094,701
Total net assets	<u>3,361,669</u>	<u>211,556</u>	<u>3,573,225</u>
Total liabilities and net assets	<u>\$ 7,089,901</u>	<u>\$ 211,556</u>	<u>\$ 7,301,457</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

FUNCTIONS/PROGRAMS

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
Governmental Activities						
Instruction	\$ 5,683,137	\$ -	\$ 2,110,814	\$ -	\$ (3,572,323)	\$ -
Support services:						
Student	414,210	-	69,418	-	(344,792)	-
Instruction staff	746,188	-	564,747	-	(181,441)	-
District administrative	285,635	-	3,000	-	(282,635)	-
School administrative	355,677	-	-	-	(355,677)	-
Business	182,296	-	10,115	-	(172,181)	-
Plant operation and maintenance	1,118,772	-	66,164	-	(1,052,608)	-
Student transportation	630,397	-	100,307	-	(530,090)	-
Facilities acquisition and construction	-	-	-	245,691	245,691	-
Community service activities	379,651	-	390,213	-	10,562	-
Other	-	-	2,253	-	2,253	-
Interest on long-term debt	150,283	-	-	-	(150,283)	-
Total governmental activities	<u>9,946,246</u>	<u>-</u>	<u>3,317,031</u>	<u>245,691</u>	<u>(6,383,524)</u>	<u>-</u>
Business-type Activities						
Food service	763,151	160,367	572,613	33,422	-	3,251
Total business-type activities	<u>763,151</u>	<u>160,367</u>	<u>572,613</u>	<u>33,422</u>	<u>-</u>	<u>3,251</u>
Total school district	<u>\$ 10,709,397</u>	<u>\$ 160,367</u>	<u>\$ 3,889,644</u>	<u>\$ 279,113</u>	<u>(6,383,524)</u>	<u>(6,380,273)</u>
General Revenues						
Property taxes					409,089	-
Motor vehicle taxes					86,766	-
Unmined minerals tax					31,809	-
Other taxes					229,700	-
Investment earnings					43,530	-
State aid formula grants					5,550,372	-
Miscellaneous					124,089	736
Total general revenues					<u>6,475,355</u>	<u>736</u>
Change in net assets					91,831	3,987
Net assets - beginning					3,269,838	207,569
Net assets - ending					<u>\$ 3,361,669</u>	<u>\$ 211,556</u>
						<u>\$ 3,573,225</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2009

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 942,319	\$ (348,017)	\$ 169,827	\$ 764,129
Accounts receivable	20,152	528,795	-	548,947
Total assets	<u>\$ 962,471</u>	<u>\$ 180,778</u>	<u>\$ 169,827</u>	<u>\$ 1,313,076</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Deferred revenue	\$ -	\$ 180,778	\$ -	\$ 180,778
Total liabilities	<u>-</u>	<u>180,778</u>	<u>-</u>	<u>180,778</u>
Fund Balances				
Unreserved, designated for	-	-	169,827	169,827
Unreserved	962,471	-	-	962,471
Total fund balances	<u>962,471</u>	<u>-</u>	<u>169,827</u>	<u>1,132,298</u>
Total liabilities and fund balances	<u>\$ 962,471</u>	<u>\$ 180,778</u>	<u>\$ 169,827</u>	<u>\$ 1,313,076</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balance per fund financial statements	\$ 1,132,298
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	4,967,701
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Certain assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	809,124
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(3,547,454)</u>
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Net assets of governmental activities	<u>\$ 3,361,669</u>
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See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	General Fund	Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues				
From local sources				
Property taxes	\$ 353,031	\$ -	\$ 56,058	\$ 409,089
Motor vehicle taxes	86,766	-	-	86,766
Unmined minerals taxes	31,809	-	-	31,809
Other taxes	229,700	-	-	229,700
Earnings on investments	43,530	-	-	43,530
Other local revenues	36,901	125,533	-	162,434
State sources				
SEEK	4,276,886	-	71,523	4,348,409
Other	1,273,486	417,360	274,914	1,965,760
Federal sources	-	2,798,925	-	2,798,925
Total revenues	6,332,109	3,341,818	402,495	10,076,422
Expenditures				
Instruction	3,495,714	2,104,654	-	5,600,368
Support services				
Student	339,402	69,418	-	408,820
Instruction staff	167,255	564,747	-	732,002
District administration	263,465	3,000	-	266,465
School administration	351,110	-	-	351,110
Business	166,669	10,115	-	176,784
Plant operation and maintenance	768,542	66,164	63,565	898,272
Student transportation	479,904	100,307	-	580,211
Community service activities	9,597	390,213	-	399,810
Facility acquisition and construction	24,823	27,040	152,610	204,473
Debt service	-	-	401,136	401,136
Total expenditures	6,086,481	3,335,658	617,312	10,019,451
Excess (deficit) of revenues over expenditures	245,628	6,160	(214,817)	56,971
Other Financing Sources (Uses)				
Proceeds from capital leases	-	-	158,239	158,239
Proceeds from the sale of fixed assets	2,576	-	-	2,576
Operating transfers in	6,160	-	325,143	331,303
Operating transfers out	(56,578)	(6,160)	(268,565)	(331,303)
Total other financing sources (uses)	(47,842)	(6,160)	214,817	160,815
Net change in fund balances	217,786	-	-	217,786
Fund balance, July 1, 2008	744,685	-	169,827	914,512
Fund balance, June 30, 2009	\$ 962,471	\$ -	\$ 169,827	\$ 1,132,298

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2009

Net change in total fund balances per fund financial statements	\$ 217,786
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlay for the year.	(176,278)
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The proceeds of receipts of accounts receivable provide current financial resources and are reported in this fund financial statement but they are presented as a reduction of assets in the statement of net assets.	(40,088)
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The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(158,239)
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Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	250,853
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Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(2,203)</u>
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Change in net assets of governmental activities	<u>\$ 91,831</u>
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See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2009

ASSETS	<u>Food Service Fund</u>
Current Assets	
Cash and cash equivalents	\$ 89,744
Other receivables	78,926
Inventory	<u>30,609</u>
Total current assets	<u>199,279</u>
Noncurrent Assets	
Capital assets	280,123
Less: accumulated depreciation	<u>(267,846)</u>
Total noncurrent assets	<u>12,277</u>
Total assets	<u>211,556</u>
NET ASSETS	
Invested in capital assets, net of related debt	12,277
Unrestricted	<u>199,279</u>
Total net assets	<u>\$ 211,556</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -
PROPRIETARY FUNDS
Year Ended June 30, 2009

	Food Service Fund
Operating Revenues	
Food service sales	\$ 123,348
Other operating revenues	<u>37,019</u>
Total operating revenues	<u>160,367</u>
Operating Expenses	
Salaries and wages	307,400
Professional and contract services	3,000
Supplies and materials	410,232
Depreciation	2,179
Other operating expenses	<u>40,340</u>
Total operating expenses	<u>763,151</u>
Operating income (loss)	<u>(602,784)</u>
Nonoperating revenues (expenses)	
Federal grants	499,575
State grants	73,038
Donated commodities	33,422
Interest income	<u>736</u>
Total nonoperating revenues (expenses)	<u>606,771</u>
Net income (loss)	3,987
Net assets, July 1, 2008	<u>207,569</u>
Net assets, June 30, 2009	<u>\$ 211,556</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2009

	<u>Food Service Fund</u>
Cash Flows from Operating Activities	
Cash received from lunchroom sales	\$ 104,431
Cash received from other activities	37,019
Cash payments to employees for services	(307,400)
Cash payments to suppliers for goods and services	(388,079)
Cash payments for other operating activities	<u>(40,340)</u>
Net cash (used in) operating activities	<u>(594,369)</u>
Cash Flows from Investing Activities	
Receipt of interest income	<u>736</u>
Net cash provided by investing activities	<u>736</u>
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	<u>572,613</u>
Net cash provided by noncapital financing activities	<u>572,613</u>
 Net increase (decrease) in cash and cash equivalents	 (21,020)
 Cash and cash equivalents - beginning of year	 <u>110,764</u>
 Cash and cash equivalents - end of year	 <u>\$ 89,744</u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ (602,784)
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	2,179
Donated commodities	33,422
Changes in assets and liabilities:	
Receivables	(18,917)
Inventory	<u>(8,269)</u>
 Net Cash Provided by (Used in) Operating Activities	 <u>\$ (594,369)</u>
 Non-Cash Non-Capital Financing Activities	
Donated commodities received from federal government	<u>\$ 33,422</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
June 30, 2009

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 174,269
Accounts receivable	<u>633</u>
Total assets	<u>\$ 174,902</u>
Liabilities	
Due to student groups	<u>\$ 174,902</u>
Total liabilities	<u>\$ 174,902</u>

See notes to financial statements

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Owsley County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Owsley County School District ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Owsley County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements.

Owsley County School District Finance Corporation - In a prior year the Board of Education resolved to authorize the establishment of the Owsley County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency of the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

District-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental, which normally are supported by tax revenues, and those that are considered business-type activities, which rely significantly on fees and charges for support.

The district-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in total fund balances. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Government Fund Types

- (A) The General Fund is the main operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

I. Government Fund Types - continued

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 40 through 42. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan. This is a nonmajor fund of the District.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a nonmajor fund of the District.
- (D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost, and for the payment of interest on general obligation notes payable, as required by Kentucky law. This is a nonmajor fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of Presentation - continued

II. Proprietary Fund Types (Enterprise Fund) - continued

The District applies all Governmental Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Kentucky Department of Education publication *Uniform Program of Accounting for School Activity Funds*.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Accounting - continued

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property taxes are levied by September 30 on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$.415 per \$100 valuation for real property, \$.466 per \$100 valuation for business personal property and \$.578 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5 -10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Budgetary receipts represent original estimates modified for adjustments, if any, during the fiscal year. Budgetary disbursements represent original appropriations adjusted for budget transfers and additional appropriations, if any, approved during the fiscal year.

Each budget is prepared and controlled at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

On district-wide financial statements inventories of supplies and materials are stated at cost and are expensed when used. On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The school food service fund inventory consists of food, supplies and U.S. Government commodities.

The food service fund inventory is stated at cost and uses the specific identification method. No inventory is recorded in the general fund as items are ordered and purchased on an as needed basis and no significant amounts are kept on hand.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

Encumbrances

Encumbrances are reported as a reservation of fund balance and are not reported as expenditures until incurred. Encumbrances are not liabilities and, therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are reappropriated in the next year. A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at June 30, 2009 in the governmental funds balance sheet.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2009, none of the District's bank balance was exposed to custodial credit risk because of coverage by Federal Depository insurance and by collateral agreements and collateral held by the pledging banks' trust departments in the District's name.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE C - CASH AND CASH EQUIVALENTS- CONTINUED

Cash and cash equivalents at June 30, 2009 consisted of the following:

	Bank Balance	Book Balance
Farmers State Bank	<u>\$ 1,702,540</u>	<u>\$ 1,028,142</u>

Breakdown per financial statements is as follows:

Governmental funds	\$ 764,129
Proprietary funds	89,744
Agency funds	<u>174,269</u>
	<u>\$ 1,028,142</u>

NOTE D - RECEIVABLES

The District recognizes revenues as receivables when they are measurable and receipt is probable. Concentration of credit risk with respect to the receivables from federal and state governments is limited due to the historical stability of those institutions. While the District receives revenues from many different sources throughout each year, accounts and grants receivable from outside sources may be grouped into the following categories, (as stated in the District-wide financial statements):

	June 30, 2009 Balance
Accounts receivable from outside sources	
Accounts receivable	\$ 716
Taxes receivable	19,436
Grants receivable	<u>607,721</u>
	<u>\$ 627,873</u>

Federal and state grants to be used or expended as specified by the grantor are recognized as revenue and recorded as receivables when qualifying expenditures are incurred.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
Land and land improvements	\$ 326,479	\$ 16,050	\$ -	\$ 342,529
Buildings and improvements	6,631,421	1,599	-	6,633,020
Technology	1,231,385	50,575	-	1,281,960
Vehicles	1,485,480	153,200	921	1,637,759
General equipment	270,966	3,569	-	274,535
Construction in progress	737,424	-	-	737,424
Totals at historical cost	10,683,155	224,993	921	10,907,227
Less accumulated depreciation	5,538,343	401,271	88	5,939,526
 Governmental Activities Capital Assets - Net	 \$ 5,144,812	 \$ (176,278)	 \$ 833	 \$ 4,967,701
 <u>Business-Type Activities</u>				
Buildings	\$ 7,400	\$ -	\$ -	\$ 7,400
Technology	76,542	-	-	76,542
General equipment	196,181	-	-	196,181
Totals at historical cost	280,123	-	-	280,123
Less accumulated depreciation	265,667	2,179	-	267,846
 Business-Type Activities Capital Assets - Net	 \$ 14,456	 \$ (2,179)	 \$ -	 \$ 12,277

Depreciation expense for business-type activities was entirely incurred in the operation of the School Food Services. Depreciation for governmental activities was charged to governmental functions as follows:

Instruction	\$ 81,399
Student	5,390
Instruction staff	14,186
District administrative	19,170
School administrative	4,567
Business	5,512
Plant operation and maintenance	220,500
Student transportation	50,186
Community service	361
	<u>\$ 401,271</u>

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE F - LONG-TERM OBLIGATIONS

The original amount of each issue, the issue date, and interest rates of bonded debt and lease obligations are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1998	\$ 48,225	4.10% - 5.00%
1999	55,963	3.50% - 4.20%
2000	113,605	4.15% - 4.60%
2001	1,040,000	3.75% - 5.00%
2001	57,284	3.50% - 4.70%
2002	1,715,000	1.90% - 4.50%
2004	445,000	2.75% - 4.50%
2006	65,103	3.30% - 4.00%
2007	755,000	3.90% - 4.30%
2008	153,110	3.00% - 3.75%
2009	158,239	2.00% - 3.90%

The District, through the General Fund, including the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund, is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Owsley County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District, through the General Fund, is also obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kentucky Interlocal School Transportation Association for the purchase of school buses.

The District entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The District has reflected the amount due from the Commission over the life of the bonds as a receivable in the Statement of Net Assets since there is no reason to believe that the Kentucky General Assembly will not continue to approve continued participation.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2009 for debt service (principal and interest) are as follows:

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

Year	Owsley County School District		Kentucky School Facility Construction Commission		Total
	Principal	Interest	Principal	Interest	
2009-10	\$ 230,223	\$ 111,060	\$ 41,610	\$ 34,383	\$ 417,276
2010-11	231,570	102,542	43,206	32,786	410,104
2011-12	221,648	93,951	44,863	31,129	391,591
2012-13	225,261	85,333	46,724	29,359	386,677
2013-14	232,920	76,715	40,103	27,245	376,983
2014-15	246,382	67,231	41,778	25,569	380,960
2015-16	255,847	57,090	43,524	23,824	380,285
2016-17	255,956	46,208	45,357	21,991	369,512
2017-18	262,129	35,145	47,267	20,081	364,622
2018-19	110,703	23,097	49,356	17,994	201,150
2019-20	103,466	18,074	51,534	16,813	189,887
2020-21	101,189	13,350	53,838	13,536	181,913
2021-22	51,087	8,579	38,913	11,159	109,738
2022-23	49,432	6,317	40,568	9,505	105,822
2023-24	52,687	4,102	42,313	7,761	106,863
2024-25	55,868	1,634	44,132	5,941	107,575
2025-26	3,971	256	46,029	4,044	54,300
2026-27	1,991	86	48,009	2,064	52,150
	<u>\$ 2,692,330</u>	<u>\$ 750,770</u>	<u>\$ 809,124</u>	<u>\$ 335,184</u>	<u>\$ 4,587,408</u>

A summary of the changes in long-term liabilities during the fiscal year ended June 30, 2009 is as follows:

Governmental Activities	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009
Bonded debt and lease obligations	\$ 3,594,068	\$ 158,239	\$ 250,853	\$ 3,501,454
Accrued sick leave	44,630	1,370	-	46,000
	<u>\$ 3,638,698</u>	<u>\$ 159,609</u>	<u>\$ 250,853</u>	<u>\$ 3,547,454</u>

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE G - RETIREMENT PLANS

The District contributes to the Teachers' Retirement System of Kentucky ("KTRS"), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system and other educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes ("KRS").

Certified employees are covered under KTRS. KTRS also establishes the contribution rates. Funding for the plan is provided through member payroll withholdings and matching State contributions. Effective July 1, 2008, new KTRS members are required to pay 10.855% of their salary, while all other members hired prior to that date continue to pay 9.855%. The matching contributions that are paid by the Federal program for any salaries paid by that program is 13.105%, or 14.105% for new members hired after July 1, 2008.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost-sharing, multiple employer, public employers' retirement system. Funding for the plan is provided through payroll withholdings and matching District contributions. Effective September 1, 2008, new CERS members are required to pay 6% of their salary, while all other members hired prior to that date continue to pay 5%. The District's contribution is 13.5% of the employee's total compensation subject to contribution.

The District's total payroll for the year was \$6,659,975. The payroll for employees covered under KTRS was \$4,831,774 and for CERS was \$1,828,201.

The contribution requirement for CERS for the years ended June 30, 2009, 2008 and 2007 were \$338,218, \$394,506 and \$314,429, respectively. The District has no contribution requirement to KTRS.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the plan documents.

The KTRS and CERS each issue a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601 (KTRS) and Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 (CERS).

The District also offers employees the option to participate in a defined contribution plan under Sections 403(B), 401(K) and 457 of the Internal Revenue Code. All employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE H - LEASES

The District leases maintenance equipment when needed and office copiers on an annual basis under operating leases. For the year ended June 30, 2009, aggregate cost for equipment and copier rentals was \$40,698.

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS - CONTINUED
Year Ended June 30, 2009

NOTE I - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of moneys advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J - LITIGATION

The District is subject to legal actions in various states of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the financial statements as a result of the cases presently in progress.

NOTE K - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE L - RISK MANAGEMENT

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance.

NOTE N - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS – CONTINUED
Year Ended June 30, 2009

NOTE O - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Special Revenue	Funds Transfer	\$ 6,160
Operating	General	Debt Service	Debt Service	56,578
Operating	Building	Debt Service	Debt Service	254,979
Operating	Capital Outlay	Debt Service	Debt Service	13,586

NOTE P - INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2009, there were no interfund balances outstanding that would be reflected in the financial statements.

NOTE Q - ON-BEHALF OF PAYMENTS

For the year ended June 30, 2009 total payments of \$1,322,978 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of revenues, expenses and changes in fund balances. These revenues and expenditures are not budgeted by the District.

NOTE R – SUBSEQUENT EVENTS

Date of Management Evaluation

Management of the District has evaluated subsequent events through November 13, 2009, the date on which the financial statements were available to be issued. No events have occurred subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

OWSLEY COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	<u>Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 38,073	\$ 114,178	\$ 17,576	\$ -	\$ 169,827
Total assets	<u>\$ 38,073</u>	<u>\$ 114,178</u>	<u>\$ 17,576</u>	<u>\$ -</u>	<u>\$ 169,827</u>
FUND BALANCES					
Fund Balances					
Unreserved, designated for	\$ 38,073	\$ 114,178	\$ 17,576	\$ -	\$ 169,827
Total fund balances	<u>\$ 38,073</u>	<u>\$ 114,178</u>	<u>\$ 17,576</u>	<u>\$ -</u>	<u>\$ 169,827</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	Capital Outlay Fund	Building Fund	Construction Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues					
From local sources					
Property taxes	\$ -	\$ 56,058	\$ -	\$ -	\$ 56,058
Earnings on investments	-	-	-	-	-
State sources					
SEEK	71,523	-	-	-	71,523
Other	-	198,921	-	75,993	274,914
Total revenues	<u>71,523</u>	<u>254,979</u>	<u>-</u>	<u>75,993</u>	<u>402,495</u>
Expenditures					
Plant operation and maintenance	57,937	-	-	5,629	63,566
Facility acquisition and construction	-	-	-	152,610	152,610
Debt service	-	-	-	401,136	401,136
Total expenditures	<u>57,937</u>	<u>-</u>	<u>-</u>	<u>559,375</u>	<u>617,312</u>
Excess (deficit) of revenues over expenditures	<u>13,586</u>	<u>254,979</u>	<u>-</u>	<u>(483,382)</u>	<u>(214,817)</u>
Other financing sources (uses)					
Proceeds from the sale of bonds	-	-	-	158,239	158,239
Operating transfers in	-	-	-	325,143	325,143
Operating transfers out	(13,586)	(254,979)	-	-	(268,565)
Total other financing sources (uses)	<u>(13,586)</u>	<u>(254,979)</u>	<u>-</u>	<u>483,382</u>	<u>214,817</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, July 1, 2008	<u>38,073</u>	<u>114,178</u>	<u>17,576</u>	<u>-</u>	<u>169,827</u>
Fund balance, June 30, 2009	<u>\$ 38,073</u>	<u>\$ 114,178</u>	<u>\$ 17,576</u>	<u>\$ -</u>	<u>\$ 169,827</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL-GENERAL FUND
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original Tentative</u>	<u>Final Working</u>		
Revenues				
From local sources				
Property taxes	\$ 311,000	\$ 311,000	\$ 353,031	\$ 42,031
Motor vehicle taxes	85,000	85,000	86,766	1,766
Unmined minerals taxes	15,000	15,000	31,809	16,809
Other taxes	150,500	150,500	229,700	79,200
Earnings on investments	60,000	60,000	43,530	(16,470)
State sources				
SEEK	4,245,000	4,253,713	4,276,886	23,173
Other	10,000	9,427	1,273,486	1,264,059
Other revenues	17,100	33,604	36,901	3,297
Total revenues	<u>4,893,600</u>	<u>4,918,244</u>	<u>6,332,109</u>	<u>1,413,865</u>
Expenditures				
Instruction	2,822,170	2,793,884	3,495,714	(701,830)
Support services				
Student	235,405	258,725	339,402	(80,677)
Instruction staff	120,462	129,978	167,255	(37,277)
District administration	308,580	256,602	263,465	(6,863)
School administration	321,590	312,138	351,110	(38,972)
Business	128,650	127,173	166,669	(39,496)
Plant operation and maintenance	752,286	786,218	768,542	17,676
Student transportation	498,289	527,199	479,904	47,295
Other expenditures	396,726	407,940	34,420	373,520
Total expenditures	<u>5,584,158</u>	<u>5,599,857</u>	<u>6,066,481</u>	<u>(466,624)</u>
Excess (deficit) of revenues over expenditures	<u>(690,558)</u>	<u>(681,613)</u>	<u>265,628</u>	<u>947,241</u>
Other Financing Sources (Uses)				
Proceeds from the sale of fixed assets	-	-	2,576	2,576
Operating transfers in	-	6,160	6,160	-
Operating transfers out	-	(6,160)	(56,578)	(50,418)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(47,842)</u>	<u>(47,842)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(690,558)</u>	<u>(681,613)</u>	<u>217,786</u>	<u>899,399</u>
Fund balance, July 1, 2008	<u>690,558</u>	<u>681,613</u>	<u>744,685</u>	<u>63,072</u>
Fund balance, June 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 962,471</u>	<u>\$ 962,471</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
COMBINED BALANCE SHEET - SCHOOL ACTIVITY FUNDS
June 30, 2009

	<u>Owsley County Elementary School</u>	<u>Owsley County High School</u>	<u>Total Agency Funds</u>
ASSETS			
Cash	\$ 15,958	\$ 158,311	\$ 174,269
Accounts receivable	<u>146</u>	<u>487</u>	<u>633</u>
Total assets	<u>\$ 16,104</u>	<u>\$ 158,798</u>	<u>\$ 174,902</u>
FUND BALANCES			
Fund balances:			
Unreserved	<u>\$ 16,104</u>	<u>\$ 158,798</u>	<u>\$ 174,902</u>
Total fund balances	<u>\$ 16,104</u>	<u>\$ 158,798</u>	<u>\$ 174,902</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - SCHOOL ACTIVITY FUNDS
Year Ended June 30, 2009

	Owsley County Elementary School	Owsley County High School	Total Agency Funds
REVENUES:			
Local sources	\$ 52,855	\$ 194,269	\$ 247,124
EXPENDITURES:			
Student body activities	<u>43,308</u>	<u>228,555</u>	<u>271,863</u>
Excess (deficit) of revenues over expenditures	9,547	(34,286)	(24,739)
FUND BALANCE, July 1, 2008	<u>6,557</u>	<u>193,084</u>	<u>199,641</u>
FUND BALANCE, June 30, 2009	<u>\$ 16,104</u>	<u>\$ 158,798</u>	<u>\$ 174,902</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND FUND BALANCES -
OWSLEY COUNTY HIGH SCHOOL ACTIVITY FUND
Year Ended June 30, 2009

	Fund Balances July 1, 2008	Revenues	Expenditures	Fund Balances June 30, 2009
Accounts:				
Academic Team	\$ 62	\$ 768	\$ 662	\$ 168
Band	3,645	1,410	4,638	417
Baseball Club	314	10,478	8,967	1,825
Beta Club	615	6,866	7,467	14
Boys Basketball	8,916	12,582	21,478	20
Certified/Classified Staff	2,628	2,984	1,838	3,774
Cheerleaders	1,583	7,588	8,422	749
Class of 2007	161	-	161	-
Class of 2008	589	-	589	-
Class of 2009	2,468	8,315	10,783	-
Class of 2010	474	55	-	529
Class of 2011	1,218	236	50	1,404
Class of 2012	320	108	-	428
Class of 2013	968	2,148	1,344	1,772
Class of 2014	-	594	306	288
Classroom Creations	3,153	120	73	3,200
Concessions	-	14,503	14,503	-
Cross Country	3,137	3,393	5,318	1,212
Drug Free Club	437	-	-	437
Dance Team	667	-	-	667
Equestrian Club	120	-	120	-
E.K.L.N.	115	-	-	115
F.C.C.L.A.	15	1,336	1,184	167
F.C.S.	108	-	-	108
F.E.A.	785	-	-	785
F.F.A.	650	4,303	4,312	641
General Athletics	3,441	23,566	25,930	1,077
Girls Basketball	3,674	20,318	23,078	914
Girls Softball	1,311	4,312	2,906	2,717
Science Club	210	-	-	210
Golf	6,094	5,467	7,405	4,156
High School Academics	508	395	903	-
Healthy KY Grant	-	2,500	1,099	1,401
Home Economics	-	1,000	554	446
Jr. High Basketball	3,873	2,646	4,911	1,608
Jr. Beta Club	191	476	436	231
Kids of Stage	3,851	1,308	1,527	3,632
Library	12,043	7,244	6,007	13,280
Media Entertainment	65	-	-	65
Miscellaneous	8,464	11,122	11,300	8,286
Nutrition Advisory Council	1,836	-	110	1,726
Outdoorsman Club	2,122	-	1,078	1,044
Project Access	3,277	5,344	7,435	1,186
Project Prom	961	3,020	2,908	1,073
P.T.S.O.	4,701	4,238	4,096	4,843
R.O.T.C.	29	-	-	29
Senior Trip	-	10,447	10,447	-
Snack	52,366	13,070	13,658	51,778
T.S.A.	1,448	-	-	1,448
Tobacco Prevention	250	-	197	53
Track	1,526	1,459	2,981	4
Volleyball	1	6,123	6,082	42
WOCS	37,820	1,805	6,859	32,766
Youth Service	9,095	5,704	9,565	5,234
Yearbook/Journalism	779	50	-	829
	<u>193,084</u>	<u>209,401</u>	<u>243,687</u>	<u>158,798</u>
Inter-fund Transfers	<u>-</u>	<u>(15,132)</u>	<u>(15,132)</u>	<u>-</u>
Totals	<u>\$ 193,084</u>	<u>\$ 194,269</u>	<u>\$ 228,555</u>	<u>\$ 158,798</u>

See accompanying independent auditor's report

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Dept. of Education:			
Title I Program	84.010	33-540-3108	\$ 179,100
	84.010	33-540-3109	513,792
Title I Program	84.010	33-540-3109M	<u>23,017</u>
			715,909
Title I, Part D School Improvements	84.010	33-540-3208	8,603
Title I, Part D School Improvements	84.010	33-540-3209	9,440
Title I, Part D School Improvements	84.010	33-540-3209G	<u>16,050</u>
			34,093
Vocational Education	84.048	33-540-3488A	301
Vocational Education	84.048	33-540-3489	<u>17,387</u>
			17,688
Special Education Cluster			
Special Education	84.027	33-540-3379	192,618
Special Education, Preschool	84.173	33-540-3439	20,960
Special Education, (ARRA)	84.391A	33-540-4249	<u>35,771</u>
Total Special Education Cluster			<u>249,349</u>
Title IV, Safe and Drug Free Schools and Communities	84.186A	33-540-4067	2,340
Title IV, Safe and Drug Free Schools and Communities	84.186A	33-540-4068	9,883
Title IV, Safe and Drug Free Schools and Communities	84.186A	33-540-4069	<u>1,307</u>
			13,530
Title II, Part D, Education Technology	84.318X	33-540-4257	1,652
Title II, Part D, Education Technology	84.318X	33-540-4258	<u>3,951</u>
			5,603
Reading First	84.357A	33-540-5087R	72,808
Reading First	84.357A	33-540-5088R	<u>93,263</u>
			166,071
Improving Teacher Quality	84.367	33-540-4018	49,676
Improving Teacher Quality	84.367	33-540-4019	<u>123,061</u>
			172,737

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2009

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION - (Continued)</u>			
KY Instructional Leadership Team Network	84.367A	33-540-4007	\$ 1,180
Rural Education Achievement Program	84.358B	33-540-3508	19,844
Rural Education Achievement Program	84.358B	33-540-3509	<u>15,006</u>
			34,850
Service Learning Grant	94.004	33-540-6758	2,971
Service Learning Grant	94.004	33-540-6759	<u>4,800</u>
			7,771
Passed Through Eastern Kentucky University:			
21st Century Communities	84.287	33-540-5508	105,732
21st Century Communities	84.287	33-540-5508S	<u>5,000</u>
			110,732
School to Work	84.048	33-540-3799	13,206
Passed Through Cabinet for Workforce Development:			
Tech Prep Education	84.243	33-540-3639	10,700
Tech Prep Education	84.243	33-540-3639A	<u>1,701</u>
			12,401
Total U.S. Department of Education			<u>1,555,120</u>
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Passed Through Eastern Kentucky Pride:			
Pride	11.420	33-540-2708	(473)
Pride	11.420	33-540-2709	3,547
Pride	11.420	33-540-2709A	<u>3,208</u>
Total U.S. Department of Commerce			<u>6,282</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through EKCEP:			
WIA Year Round Youth Program	17.250	27404708	87,782
WIA Summer Youth Program	17.259	27404708	<u>30,073</u>
Total U.S. Department of Labor			<u>117,855</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
Year Ended June 30, 2009

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Middle Kentucky River Area Development Council :			
Headstart	93.600	04YC069	\$ 202,657
Headstart	93.600	04YC069	<u>454,062</u>
			<u>656,719</u>
Direct Award:			
Early Headstart	93.600	04YC069	124,557
Early Headstart	93.600	04YC069	<u>341,531</u>
			<u>466,088</u>
Passed Through Kentucky River District Health Department:			
Postponing Sexual Involvement	93.994	N/A	<u>678</u>
Total U.S. Department of Health and Human Services			<u>1,123,485</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Dept. of Education:			
Child Nutrition Cluster			
National School Lunch Program	10.555	7750002	314,480
National School Breakfast Program	10.553	7760005	162,508
Summer Food Program	10.559	7740023	<u>18,389</u>
Total Child Nutrition Cluster			<u>495,377</u>
Passed through Kentucky Department of Agriculture:			
Food Donation	10.550	1006	<u>33,422</u>
Total U.S. Department of Agriculture			<u>528,799</u>
Total Expenditures of Federal Awards			<u>\$ 3,331,541</u>

See accompanying independent auditor's report

OWSLEY COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Owsley County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

NOTE C – HEADSTART/EARLY HEADSTART

The fiscal year end for the District is different than the fiscal year end for Headstart/Early Headstart; therefore, amounts reported to the Department of Health and Human Services may not reconcile with amounts reported in the Schedule of Expenditures of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued - unqualified

Internal control over financial reporting:

- Material weakness(es) identified _____yes ___X___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____yes ___X___none reported

Noncompliance material to financial statements noted?

_____yes ___X___no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes ___X___no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____yes ___X___none reported

Type of auditor's report issued on compliance for major programs - unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____yes ___X___no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027/84.173/84.391A	Special Education Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

___X___yes _____no

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
Year Ended June 30, 2009

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

OWSLEY COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2009

Status of Prior Year Findings

No findings were reported.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Owsley County School District
Booneville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District as of and for the year ended June 30, 2009, which collectively comprise the Owsley County School District's basic financial statements and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owsley County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

We noted certain matters that we reported to management of Owsley County School District in a separate letter dated November 13, 2009.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Owsley County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baldwin CPAs, PLLC

London, Kentucky
November 13, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education
Owsley County School District
Booneville, Kentucky

Compliance

We have audited the compliance of Owsley County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Owsley County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Owsley County School District's management. Our responsibility is to express an opinion on Owsley County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract – General Audit Requirements*, *Appendix II of the Independent Auditor's Contract – State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Electronic Submission*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Owsley County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Owsley County School District's compliance with those requirements.

In our opinion, Owsley County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Owsley County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Owsley County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Owsley County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Owsley County School District, the Kentucky Department of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Baldwin CPAs, PLLC

London, Kentucky
November 13, 2009

MANAGEMENT LETTER COMMENTS

Members of the Board Education
Owsley County School District
Booneville, Kentucky

In planning and performing our audit of the financial statements of Owsley County School District as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting and compliance as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting and compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the District's internal control in our report dated November 13, 2009. This letter does not affect our report dated November 13, 2009 on the financial statements of the Owsley County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Baldwin CPAs, PLLC

London, Kentucky
November 13, 2009

**OWSLEY COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
Year Ended June 30, 2009**

School Activity Funds

Multiple Receipt Forms

- a. Statement of Condition - At one school (Owsley County Elementary), several instances were noted where multiple receipt forms were not prepared correctly.
- b. Criteria - Good internal control procedures requires the teacher collecting money from the students to fill out a multiple receipt form and take it along with the money collected to the bookkeeper, who needs to count the money with the teacher. The form then needs to be signed and dated by both parties.
- c. Cause of Condition - The teacher remitting the money to the bookkeeper failed to prepare the multiple receipt form correctly.
- d. Effect - There is no accurate record of all money received from students.
- d. Recommendation - All personnel should be made aware of the procedures listed in the Redbook. The bookkeeper should review all forms before receiving the money to ensure completeness.
- e. Management's Response - All personnel will be made aware of the Redbook procedures. All forms utilized for documenting receipt of funds will be completed appropriately by staff members and the bookkeeper. The District's Finance Director will assist with and monitor utilization of Redbook practices/procedures.

Sales Taxes Paid

- a. Statement of Condition - At one school (Owsley County Elementary), sales taxes were paid.
- b. Criteria - Good internal control procedures requires scanning of vendor's invoices to ensure that no sales taxes are paid.
- c. Cause of Condition - The bookkeeper failed to recognize that sales taxes were being charged on the vendor's invoice.
- d. Effect - Sales taxes that are unallowable expenditures were paid.
- e. Recommendation - The bookkeeper should scan all invoices for sales taxes prior to payment of the invoice.
- f. Management's Response - All invoices will be reviewed by bookkeeper for payment of sales taxes. District Procedure: Sales tax will not be reimbursed to individuals for purchases. Any purchase where sales tax is charged must be reimbursed to school by individual responsible for making purchase, unless individual can obtain credit or removal of sales tax by vendor on an invoice. Bookkeeper will assure District of strict adherence to this procedure.

Annual Financial Report

- a. Statement of Condition - One school (Owsley County Elementary) did not prepare a complete list of accounts receivable and accounts payable as of June 30, 2009.
- b. Criteria - The Redbook requires a list of accounts receivable and accounts payable (Form F-SA-15B) accompany the Annual School Activity Report.
- c. Cause of Condition - The bookkeeper just failed to determine and include all receivables and payables for her school at June 30, 2009.
- d. Effect - Revenues and expenses were understated.
- e. Recommendation - The annual financial reports should be amended to include a complete and revised Form F-SA-15B.
- f. Management's Response - The annual financial reports will be amended to include a complete and revised Form-SA-15B.

OWSLEY COUNTY SCHOOL DISTRICT

RESOLUTION OF RECOMMENDATIONS OF PRIOR YEAR MANAGEMENT LETTER POINTS
Year Ended June 30, 2009

The prior year management letter contained conditions relating to the following:

General

1. Credit Card Purchases
2. Pledged Securities

School Activity Funds

3. Multiple Receipt Forms
4. Annual Financial Report
5. Budgets

Procedures performed for the year ended June 30, 2009 did not indicate a recurrence of conditions 1, 2, and 5. The District appears to have adequately addressed the recommendations that were made.

Conditions 3 and 4 are repeat conditions for the year ended June 30, 2009.

Members of the Board of Education
Ms. Melinda Turner, Superintendent
Owsley County School District
Booneville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Owsley County School District as of and for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 27, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Owsley County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008-2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Owsley County School District's financial statements was:

Management's estimate that an allowance for doubtful accounts is not necessary is based on from whom the receivables are due and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to make this determination and its reasonableness in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 13, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the members of the Board of Education and management of Owsley County School District and is not intended to be and should not be used by anyone other than these specified parties.

Baldwin CPAs, PLLC

London, Kentucky
November 13, 2009